

Message Text

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PASS TREAS FOR PARSKY AND WIDMAN, EB/IFD/OMA FOR RYAN

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TAGS: EFIN, OECD, EINV, ENRG

SUBJECT: PAPERS FOR IEA AD HOC GROUP ON FINANCIAL AND

INVESTMENT ISSUES (FII): PART III (B) (III

AND IV) (PAPER ON "DEVELOPING COUNTRIES:

ISSUE AT HAND: MECHANISMS IN PROVIDING AID

TO DEVELOPMENT)

REFS: (A) OECD PARIS 5996

(B) OECD PARIS 5872

(C) STATE 55605

1. THIS CABLE TRANSMITS THE FOLLOWING PAPER WRITTEN BY
TURKEY ENTITLED, "DEVELOPING COUNTRIES: ISSUE AT HAND:
MECHANISMS IN PROVIDING AID TO DEVELOPMENT," WHICH
CORRESPONDS TO ITEM III (B) (III AND IV) OF THE TABLE
CONTAINED IN DOCUMENT IEA/SPC(75)7 SECOND REVISION, IN
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ACCORDANCE WITH ASSIGNMENT OF RESPONSIBILITIES MADE AT

LAST IEA GOVERNING BOARD AND OF AD HOC GROUP ON FINANCIAL
AND INVESTMENT ISSUES ON MARCH 6 (REFTEL A).

BEGIN TEXT

III (B) III # IV
IEA/SPC(75)
THE TURKISH DELEGATION

DEVELOPING COUNTRIES: ISSUE AT HAND:
MECHANISMS IN PROVIDING AID TO DEVELOPMENT

1. DESCRIPTION: A NEW FINANCING MECHANISM HAS TO BE FOUND FOR THE PRODUCERS AND CONSUMERS, DEVELOPED AND DEVELOPING ALIKE, AS ALL EXISTING MECHANISMS HAVE PROVED TO BE INSUFFICIENT TO CREATE A LASTING AND PRODUCTIVE RELATIONSHIP BETWEEN THE EXISTING TECHNOLOGY AND SAVINGS OF THE WORLD AND ITS ABSORPTIVE CAPACITY.

2. BACKGROUND: CAPITAL MARKETS ARE DISTURBED BY THE INCREASED UNSTABLE FUNDS. UNCONTROLLABLE, RAPID MOVEMENTS CAUSE MONETARY, FINANCIAL AND HENCE ECONOMIC DISORDER. INDUSTRIES, UNDER EXISTING MARKET CONDITIONS, ARE FINDING IT EVER MORE DIFFICULT AND EXPENSIVE TO MAKE GOOD USE OF THESE FUNDS, IN BEING UNABLE TO CHANNEL THEM TO PRODUCTION. GENERAL AND STUBBORN INFLATIONARY DEVELOPMENTS AND STAGNATING ECONOMIC ACTIVITY DUE TO DISABILITY TO REINVEST THE FUNDS GOING OUT OF THE ECONOMIES TO PAY FOR HIGHER PRICES, ERODE THE REAL VALUE OF WORLD SAVINGS. THIS EROSION IS MOST OBVIOUSLY OBSERVED IN THE CLAIMS OF THE OIL PRODUCERS. THE SAME IS ALSO TRUE FOR SOME OF THE SAVINGS IN THE INDUSTRIALIZED WORLD. AS TO THE MEAGRE RESERVES OR FUND-RAISING ABILITY OF THE DEVELOPING COUNTRIES ARE BEING ERODED RAPIDLY, WHILE THEIR NATURAL RESOURCES AND ABSORPTIVE CAPACITY REMAIN UNTAPPED.

AT THE MOMENT, ACTIVITIES WITHIN THE UN, IMF, IBRD, IDA AND ELSEWHERE (DAC, EEC, BILATERAL RELATIONS) ARE HELPFUL, BUT INSUFFICIENT, UNCOORDINATED AND LACKING THE LIMITED OFFICIAL USE

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NECESSARY INNOVATION TO BRING ABOUT A STABLE, LASTING AND PRODUCTIVE TRIANGULAR RELATIONSHIP. ATTEMPTS, SUCH AS THE "DE ROOSA" OR "LEVER" PLANS ARE INOPERATIVE AND REMAIN IN THE THEORETICAL PHASE. IN SHORT, NOTHING MUCH

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IS DONE.

AS TO THE ATTITUDES OF DEVELOPING AND CONSUMER COUNTRIES TOWARDS THE POSSIBILITY OF OBTAINING STABLE CAPITAL INCOMES AND OBTAINING TECHNOLOGY OR MEANINGFUL FINANCING WITHIN A TRIANGULAR ARRANGEMENT, ALL INDICATIONS ARE THAT THEY ARE MOST POSITIVELY INCLINED AND EVEN TRYING TO ESTABLISH SUCH A SCHEME BETWEEN THEMSELVES (ARAB INVESTMENT BANK, ETC.).

3. ARGUMENT: IEA COUNTRIES SHOULD USE SUCH A SCHEME AS AN OVERALL EFFORT TO BRING OUT THE COMPLEMENTARITY OF INTERESTS, THEREBY MAKING THE FIRST STEP FOR THE SOLUTION OF ACUTE PROBLEMS SUCH AS PRICES, MARKET AND SUPPLY STABILITY, INVESTMENT SECURITY, ETC. OFFERING THE TECHNOLOGY AND SAVINGS POTENTIAL OF IEA COUNTRIES TO GO TOGETHER WITH THE SAVINGS OF OIL PRO-

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DUCERS WOULD BE A SUBSTANTIAL STEP TOWARDS PURPOSEFUL COOPERATION, PROVIDING NEW INVESTMENT AND BUSINESS POSSIBILITIES FOR THE IEA ECONOMIES AND AN OPPORTUNITY TO IMPROVE THEIR CURRENT AND CAPITAL ACCOUNTS UNDER MORE STABLE AND CONTROLLABLE CONDITIONS, WHILE ALSO PAVING THE WAY FOR THE DEVELOPMENT OF OTHER CONSUMERS AND PRODUCERS.

4. OBJECTIVE: THE OBJECTIVE SHOULD BE THE CREATION OF A SIMPLE FINANCING MECHANISM TO BRING TOGETHER THE EXPORT CREDIT INSTITUTIONS AND INVESTMENT BANKS OF PRODUCERS AND CONSUMERS, DEVELOPED OR DEVELOPING. EACH COUNTRY SHOULD DESIGNATE ONE BANKER. THESE BANKERS SHOULD COME TOGETHER TO AGREE ON A JOINT BOND ISSUE, A SORT OF "OBLIGATION." AN INTERNATIONAL BANKER (PRIVATE OR PUBLIC) SHOULD BE DESIGNATED TO ACT AS THEIR AGENT. THIS SINGLE AGENT SHOULD ISSUE THE BONDS IN THE INTERNATIONAL CAPITAL MARKETS WITH A JOINT GUARANTEE BACKING IT AND ACCUMULATE THE FUNDS; INTEREST RATES AND REPAYMENT TERMS BEING COMPARABLE TO THOSE ALREADY PREVAILING. THEN SUCH FUNDS SHOULD BE RE-LENT TO INVESTORS AND/OR EXPORTERS, PRIVATE OR PUBLIC. INTEREST OR CREDIT REPAYMENT TERMS TO BE TAILED ACCORDING TO THE TYPES OF ACTIVITY OR TRANSACTION INVOLVED.

IN BORROWING FROM THE MARKETS MARGINALLY BETTER CONDITIONS MAY ADD TO THE ATTRACTION OF ALREADY JOINTLY GUARANTEED, SECURE AND STABLE BONDS. IN RE-LENDING, FOR DEVELOPING COUNTRIES EASIER TERMS MAY BE APPLIED AS THEY WOULD BE MADE UP THROUGH THEIR INCREASED IMPORT ORDERS, STABLE RAW MATERIAL AND COMMODITY SUPPLIES. AS TO THE OIL PRODUCERS, WHILE THEIR ACCUMULATING FUNDS WOULD BE HARNESSSED INTO PRODUCTIVE ACTIVITY, PRIMARILY AS CAPITAL HOLDERS THEY WOULD HAVE CONSIDERABLY SECURE INCOMES FOR THEIR SAVINGS WITHOUT ANY DESTABILISING EFFECT. THE INDUSTRIALISED COUNTRIES ON THE OTHER HAND WOULD BE BACKING THEIR INDUSTRIAL ACTIVITIES AND EXPORTS UNDER REASONABLE CONDITIONS, OBTAINING SECURE SUPPLIES AND PROFITING FROM A GENERAL IMPROVEMENT IN INTERNATIONAL ECONOMIC RELATIONS.

5. LINES TO TAKE:

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- SUCH A SCHEME MAY CONSTRUCTIVELY BE AIRED BY THE IEA COUNTRIES USING THE ARGUMENTS ABOVE.

- A VERY SIMPLE DEVICE SHOULD BE OFFERED:

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NOTHING LIKE THE IBRD - IMF - IDA - IFC ARRANGEMENT;
JUST A MEETING OF EXISTING EXPORT AND INVESTMENT BANKERS;
CONTRACTING OF AN INTERNATIONAL FINANCE AGENT; LEAVING
MOST OF THE REST TO THE EXISTING CAPITAL MARKET CONDI-
TIONS.

6. CONCLUSION: THERE IS AN INTEREST IN DIS-
CUSSING THE MATTER. THE OFFER MAY COME FROM THE IEA.
IT WOULD BE A FEASIBLE WAY FOR ACHIEVING THE AIMS OF
RECHANNELLING AND SECURITY OF SUPPLIES, WHILE ALSO
ANIMATING AND REINVIGORATING ECONOMIC ACTIVITY AND
EXPORTS, WITH POSITIVE EFFECTS ON MARKET AND PRICE
STABILITY. THE RESULTS WOULD BE AS FOLLOWS:

A) THE COMPLEMENTARITY BETWEEN THE TECHNOLOGY,
SAVINGS AND ABSORPTIVE CAPACITY OF ALL PRODUCERS AND
CONSUMERS WOULD BE BROUGHT TO FORE.

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B) THE PRODUCERS WOULD BE SAVED FROM THE
EROSION OF THEIR SAVINGS AND THEY WOULD BE GIVEN THE
CHANCE OF ECONOMIC SUSTENANCE BY THEMSELVES AFTER THE
DEPLETION OF THEIR OIL RESOURCES.

C) LIKEWISE, THE DEVELOPING COUNTRIES WOULD
BE BROUGHT TO A LEVEL WHERE THEY MAY SUSTAIN THEIR
DEVELOPMENT THEMSELVES.

D) INDUSTRIALIZED COUNTRIES WOULD BE ABLE TO
MAINTAIN AND PROMOTE THEIR EMPLOYMENT GOALS, ECONOMIC
ACTIVITY AND EXPORTS.

E) SERIOUS PROBLEMS OF DISEQUILIBRIUM IN THE
WORLD ECONOMY DUE TO POSSIBLE EXTREME DIFFICULTIES FOR
THE DEVELOPING COUNTRIES FROM TODAY ONWARDS AND FOR THE
PRODUCER COUNTRIES AFTER THE DEPLETION OF THEIR OIL
RESOURCES WOULD BE AVOIDED.

F) THE WORLD MONETARY AND FINANCIAL STABILITY
WOULD BE SERVED.

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